



Michael C. Schlachter, CFA
Managing Director

January 12, 2006

Ms. Anne Stausboll
Interim Chief Investment Officer
California Public Employees' Retirement System
400 P Street, Suite 3492
Sacramento, CA 95814

Re: Relaxation of Long-Only Constraint for Domestic Equity Managers

Dear Anne,

You had requested Wilshire's opinion regarding Staff's proposal to offer an RFP in search of managers capable of managing portfolios with a relaxed long-only constraint. Wilshire believes that the issuance of an RFP is the correct way to search for such managers, as it will give all parties concerned a chance to fully understand and appreciate the risks we have previously discussed.

We recommend that our opinion letter on this topic from the November and December Investment Committee meetings should be included as a reference in the February agenda packet to remind the Investment Committee of our previous considerations. However, after extensive conversations on this topic with Staff, we believe that Staff fully understands the risks inherent in such a strategy, and will take the appropriate steps to mitigate them.

Furthermore, given that this is a new effort by the Global Equity team within CalPERS, and not simply a "refresh" of a pool for an existing strategy, we are pleased to offer our services to the Staff in reviewing candidates as well as in conducting whatever manager interviews or other due diligence efforts are required.

Sincerely,

A handwritten signature in black ink, appearing to read 'Michael Schlachter', with a stylized flourish at the end.

Michael C. Schlachter, CFA